



COLOMBIA: INDUSTRY SECTOR ANALYSIS FRANCHISE SERVICES

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I. SUMMARY

The number of franchises in Colombia more than doubled during the last six years, from an estimated 100 at the end of 2002 to about 270 by November 2008. This boom was due mainly to the implementation of the franchise concept by many local firms which have realized that franchising their products, services, and marketing systems may be a safe and less complex way of expanding their business.

There is a growing interest in the local market for franchising systems. However, there is an increasing competition from local and third country firms. U.S. firms interested in the Colombian market must be aware that competitive prices, product quality, strong promotion campaign, customizing products to local market, using appropriate labeling and packaging, very clear contracts, and an excellent training of local franchisees are some of the main factors determining a successful market penetration.

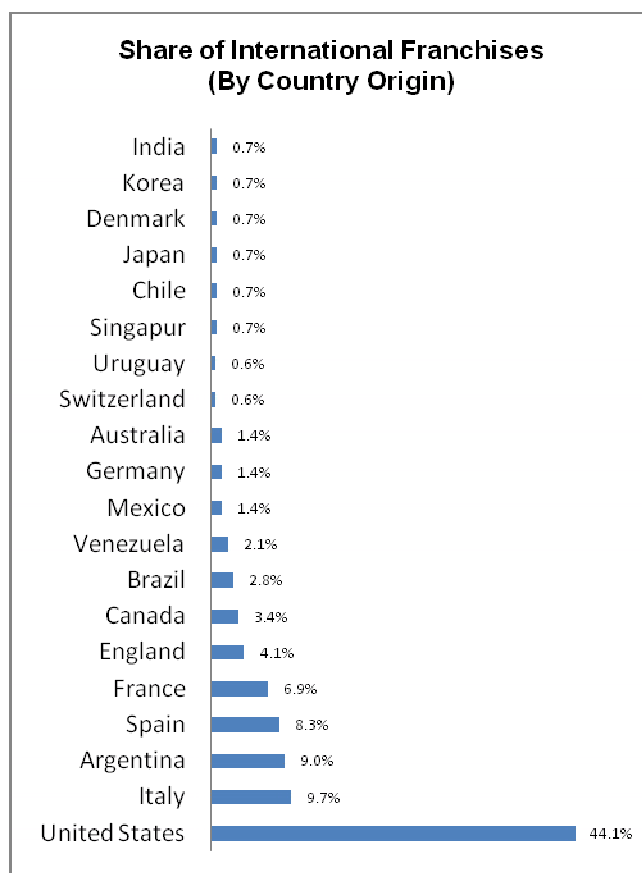
II. MARKET OVERVIEW

The following factors led to substantial growth of the Colombian economy during the last four years and also have a direct positive impact on the franchise market:

- improved domestic security
- low inflation policy (5.69 as of December 2007)
- Colombian peso appreciation and stability
- increase in petroleum price
- a significant growth of foreign trade and investments
- high GDP growth rate (6.6% in 2007)

Although there are no reliable figures on the franchise sector in Colombia, the industry sector estimates that currently there are some 90 foreign firms franchising in Colombia. Approximately, 44 % of these firms (40 companies) are from the United States, followed by Italy, Argentina, Spain and France. It is estimated that 52% of the franchise businesses have at least 10 locations; 25% have from 10 to 24 locations and the remaining 23% have more than 25 locations. Most of these locations are located in the city of Bogota, D.C., followed by Medellin, Cali, Barranquilla and Cartagena.

Sources: Expansion de Negocios/+masfranquicias, LMF Asociados, Tormo & Asociados Colombia, Industry Sources



III. MARKET TRENDS

Colombia has the largest population in the Andean community, ranking third in Latin America after Brazil and Mexico. The current population of 44 million is composed primarily of young people, with 78% of the population under age 45. Colombia is highly urbanized. Three of its cities have more than two million inhabitants (Bogota, the capital city, alone has over 6 million inhabitants). There are another 11 cities with populations exceeding 500,000 and 22 cities with more than 100,000 inhabitants. This distribution of the population creates diversified markets and opportunities for the franchising business.

Twenty six years ago, a group of Colombian entrepreneurs acquired a franchise from Dunkin Donuts. By that time, the Colombian economy had very rigid legislation regarding imports and foreign investment. It was difficult to import equipment and raw materials. The new franchisees had to be very resourceful to locally procure equipment and raw materials necessary to meet the standards of quality required by the franchisor. This is often one of the requirements to qualify for a franchise license.

Today, the conditions are very different. Colombia's economic liberalization (a process locally known as "apertura") is already 17 years old. It began in 1990-91 under former President Gaviria, and has continued under the subsequent administrations. With few exceptions, foreign investment is allowed in all sectors of the economy. Foreign and national investments generally receive the same legal and administrative treatment. Import duties have been reduced and simplified. Colombia has signed trade agreements with other Latin American, Central American, and Caribbean countries and, as previously mentioned, is expecting the approval of the bilateral trade agreement with the United States by the U.S. congress.

During the first 20 years of the franchising history in Colombia, the number of franchisors grew very slowly. By year 2002 there were approximately 100 local and international franchisors operating in this country. Most of these firms were foreign companies because, up until the end of last century, the franchising concept had not gained the acceptance that it currently enjoys among the local companies.

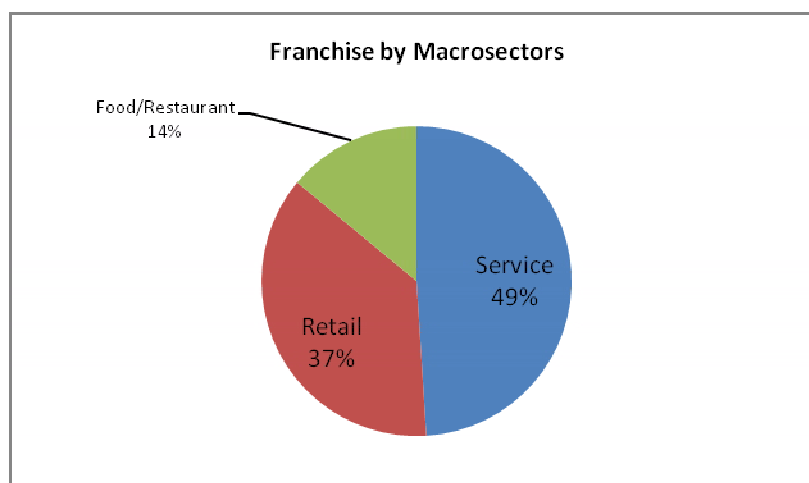
The few firms that conduct studies about the franchising sector in Colombia show significant differences on their statistics about the total number of firms that operate through this system in Colombia and the number of networks (establishments under contract or owned by each one of the franchisors). One of these sources (the firm Expansion de Negocios) estimates that, by the end of 2007, the total number of franchisors was 365. Another reputed international consultant, the firm Tormo and Asociados, asserts that, according to its most recent study, the total number of franchisors in this country, local and international, does not exceed 210 firms. Other industry sources believe that a more appropriate number would be around the 270 firms with 33 percent of them being international franchising companies and the rest are local firms.

All analysts agree that the growth of this industry is due mainly to the significant increase in the number of local firms that have implemented this system during this decade because they consider that franchising their products, services, and marketing systems may be a safer and less complex way of expanding their business.

III. COMPETITION

U.S. fast food companies were the franchising pioneers in Colombia. Today, if only foreign firms are considered, fast food continues to be the largest franchising sub-sector with internationally known names such as Pizza Hut, McDonald's, Baskin Robbins, Domino's Pizza, Hooter's, Hard Rock Café, Yogen Fruez, Subway, TGI Fridays, Dunkin Donuts, and Kentucky Fried Chicken. Franchising companies also have been successful in other sectors. These companies include firms such as Postnet, Fast Signs, Kumon, Room's to Go, Berlitz, Bossi, Esprit, Levi's, Norwalk, Royal Executive Offices, Serta, Heel Quick, Mail Boxes, Quick Oil, Truly Nolen, Coldwell Bank, Century 21, and Wall Street Institute. Worldwide known brands or apparel labels also are being produced in Colombia under "maquila" or licensing agreements.

Most franchisors in Colombia operate in the services sector (49 percent) followed by the retail sector (37 percent) and the food and restaurant sector with 14 percent participation. The services sector include firms engaged in a wide range of activities such as beauty, education, financing, mailing and courier, real state, telecommunications, information technology, and entertainment.



V. MARKET ACCESS

- Legal Aspects

Relationships between franchisers and franchisees are regulated by the terms of freely negotiated contracts, provided that they are consistent with the Colombian Commercial Code (Codigo de Comercio de Colombia) and the applicable legal framework. Due to the complexity of the Colombian legislation, competent legal advice is essential during all steps of a franchising negotiation. There is no specific legislation for the franchising industry in Colombia, The legal aspects of the contract are framed by those chapters of the Colombian Civil and Commercial Codes that regulate the commercial contracts. The franchising contract is considered to include several aspects such as brand licensing, know-how technology transfers, technical assistance, etc. Emphasis is given to the clear description of the parties' mutual rights and responsibilities.

The Colombian Ministry of Industry and Tourism, the Colombian Merchants' Federation (FENALCO), some franchisors and franchisees, and the Colombian Technical Standards Institute (Instituto Colombiano de Normas Tecnicas-ICONTEC) are joining efforts to develop a document that will establish minimum standards to regulate and guide the franchising activity in Colombia. ICONTEC would certify those firms that implement the related standards which will foster confidence between franchisers, franchisees, and the final end-users of the goods and services.

- Market Entry

There are no major restrictions for franchise operations in Colombia. Competitive prices, product quality, and strong promotion and advertising are the main factors determining a successful market penetration. There are several publications available to assist foreign firms interested in establishing a foothold in the Colombian franchising sector to contact potential local franchisees. The initial contact can also be established by participating or visiting the specialized shows that are organized in the United States or in Colombia. As suggested in Part VII of this report, interested U.S. franchising firms are also encouraged to use different services designed by the U.S. Department of Commerce for this purpose.

Important aspects to be considered in planning a market entry into the Colombian franchising sector are:

- Secure legal counseling to cover all aspects of the contract to meet the provisions of the Colombian Commercial and civil law codes and protect brands, products, and other rights in case of legal problems.
- Establish very clear terms on advertisement obligations of the parties which is one of concerns usually brought out by local franchisees.
- Provide constant training and support to local franchisees.
- Customize the concept to the Colombian culture. This includes translating into Spanish the company's promotional literature, manuals and supporting material and adapting products/services to local customers, including packaging and of labeling products and services.
- U.S. franchisers interested in exploring the Colombian market should contact the office of the U.S. Commercial Service in Bogota for personalized counseling and assistance.

VI. KEY CONTACTS

The following are Colombian entities and firms related to the franchising industry. These entities are excellent multipliers for any kind of promotion related to selling products and/or services to the industry. U.S. franchise companies wishing to promote their products and services in Colombia are encouraged to do it through the publications of these companies.

Expansion de Negocios/+masfranquicias
 Jorge-Andres Orozco, President-Partner
 Calle 10 B # 36 - 28 - Piso 2, Medellín
 Tel: (574) 266 0503
 Fax: (574) 352 3669
masfranquicias@expansiondenegocios.com
www.masfranquicias.com
 Publishes: +masfranquicias

FEDERACION NACIONAL DE COMERCIANTES – FENALCO

(National Merchants' Federation)

Maria-Cristina Camejo, Sector Manager

Carrera 7 No. 32-33 Piso 4

Tel: (571) 350-0699 x 6457

Fax: (571) 350-9655

mcamejo@fenalcobogota.com.co

www.fenalco.com.co

LMF Consulting

Luis-Felipe Jaramillo-Lema, Director LMF Consulting

Ramon-Hernando Wilches, Business Manager

Avenida 40-A, No. 13-09, Of. 1104

Tel: (571) 287-8311

Fax: (571) 287-6339

info@tormo-asociados.com.co

www.lfm.com.co

This company organizes the annual show “Feria Andina de Negocios y Franquicias – FANYF”. It will take place during the second week of November 2009 .

Tormo & Asociados Colombia

Julio Seneor, Director-Partner

Lucas Bruno, General Manager

Carrera 14 No. 86A-97

Tel: (571) 691-8042

Fax: (571) 257-9351

info@tormo-asociados.com.co

www.tormo.com.co

Publishes: Guía de Franquicias y Oportunidades de Negocios

VII. TRADE SHOWS

The Commercial Service of the U.S. Department of Commerce promotes and organizes international buyers groups to attend selected U.S. trade shows. This is a cost-effective way of promoting U.S. products to international buyers as it offers them the opportunity to contact firms and make business comparisons without having to travel throughout the entire United States. CS Bogota is promoting the following franchising trade show in the United States:

The 18th International Franchise Expo (IFE)

March 20-22, 2009

Washington Convention Center

801 Mount Vernon Place NW

Washington, D.C. 20001

Phone: (202) 249-3000

This venue is sponsored by the International Franchise Association and is the largest franchise event in the USA. IFE attracts over 300 exhibitors and more than 14,000 visitors from all 50 states and from 50 countries around the world. The exhibition also offers comprehensive

seminars and educational programs. For more information on this event please visit the web page: www.ifeinfo.com

LOCAL TRADE SHOWS

The U.S. franchising firms should also consider participating in the Third Andean Business and Franchising Trade Show (FANYF) that is planned in the middle of November 2009 in Bogota. This event was successfully organized in 2007 and 2008. Most of the participants were firms from the Andean Community Nations and Spain, but the organizers plan to promote the event among firms from other countries such as the United States, Europe, Latin America and Canada.

The firm in charge of the organization of this fair is LFM Consulting Ltda.:

LFM Consulting Ltda.
Calle 40A No. 13-09, Oficina 1104
Tels: (571) 2878311 / (571) 2877840
Fax: (571) 2876339
Ramon-Hernando Wilches, Business Manager
www.fanyf.com

The U.S. Commercial Service in Bogota also offers a number of services for U.S. companies seeking business opportunities in Colombia. Services available are Trade Missions, Gold Key Service (allows U.S. firms to have a schedule of appointments with potential representatives prior to arrival), International Partner Search, and Single Company Promotions. For detailed information on these services please visit our web site: www.buyusa.gov/colombia/en

For further information on these services please contact:

U.S. Commercial Service
Tanya Cole, Commercial Officer
tanya.cole@mail.doc.gov

Mailing address:
American Embassy
Unit No. 5120
APO AA 34038
Email: Bogota.Office.box@mail.doc.gov
Website: <http://usembassy.state.gov/colombia>

Rebeca de Rueda
Email: rebeca.rueda@mail.doc.gov
www.buyusa.gov/colombia

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